



Budget Tidbits... just the facts

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No Special Session to Pass Bad Public Policy

Nearly two weeks after the 2009 legislative session ended, there is still discussion on whether to bring legislators back for a special session. The answer should be "no" as it concerns [Engrossed Substitute House Bill 1776](#), a "reverse Robin Hood bill" that would adversely impact the majority of school districts in the state while benefitting a select minority.

I. Background: Budget, Equity, and Levy Lids

While the Legislature passed an [operating budget for 2009-11](#), not all the bills needed to implement the budget were passed. The most fiscally significant of the omissions was ESHB 1776, which would have saved \$60 million by reducing state assistance for the least affluent school districts.

Equitable funding among school districts is a fundamental premise of our state's K-12 financing. See Art. 9, sec. 2 of the [state Constitution](#): "The legislature shall provide for a general and uniform system of public schools." Since school funding is the state's duty, the Legislature has placed constraints on the amount a district can raise from local taxpayers. This constraint is called the "levy lid" and is generally limited to 24% of the amount of state and federal funding.¹

The practical problem, from an equity standpoint, is that it's much easier for some districts to raise funds than others, and that ability is only tangentially related to taxpayers' willingness to pay. Instead, it's a product of the property wealth in a district. For instance, if two districts each got \$100 million from the state, they could both go to voters seeking a property tax levy to raise an additional \$24 million. But if land value in district B is only 1/5th the land value in district A then the tax rate required to generate the same amount of funds will be five times higher in district B than district A.

In recognition of this inequity, the Legislature provides [levy equalization support](#), which is a fancy way of saying the state provides financial assistance for less-affluent districts to make the passing of levies a more equitable prospect both for the district and taxpayers.

With that background, let's look at how equity, levy lids, and school funding are proposed to change under ESHB 1776.

II. ESHB 1776: Bad for Kids, Bad for Taxpayers

ESHB 1776, for the upcoming biennium, would change the law in two significant ways:

1. Authorizes less-than-full funding of levy equalization.

The budget then proceeds to reduce funding by 16%, or \$60 million. This would negatively impact 224 of the state's 295 school districts.

Should ESHB 1776 not pass, full funding of levy equalization is required.

2. Authorizes a 4% increase in districts' levy lids, both prospectively and retroactively.

The amount districts could raise locally would increase by 4%.² This would apply not only prospectively through calendar year 2011, but also to levies already approved by voters. There are two problems with this approach.

First, while applied equally, this "lid lift" authority only benefits select – primarily wealthy – districts that are constrained by the lid. Currently, only 80 of the 295 school districts are at their lid, meaning just over 1/4th of school districts benefit from a lid lift. The vast majority of districts never even approach the current lid and thus would see no benefit from a lid lift.

Second, the retroactive provision is troubling from a taxpayer standpoint. When they approved the levy voters presumably relied upon the current law "levy lid" operating as a constraint on the amount that would actually be collected. Yet ESHB 1776 proposes to change the rules *ex post-facto* and take away that taxpayer protection. Doing so prospectively when voters make the knowing choice is one thing; to change the rules -- to the detriment of taxpayers -- after they have voted is quite another.

III. Special Session: Hurt Poor Districts, Increase Inequity?

Taking into account the levy equalization reduction and the increased levy lid authority, non-partisan analysis indicates the "loser" school districts far outnumber the "winners".³

School District Impacts (ESHB 1776)⁴

Winners	66
Unaffected	52
Losers	177

Of the winners, three districts (Seattle, Spokane, and Central Valley [Spokane]) would receive 38% of the total dollar increase among such districts. This is attributable to having sought and received voter approval for a levy far in excess of the current levy lid.

It is worth noting this [“winner/loser” list](#) is compiled based on levy equalization reductions if ESHB 1776 is passed, plus known levy revenue approved by voters which is in excess of the current levy lid. The analysis does not take into account future possible voter activity approving levies in excess of the current lid. But, given that only 80 districts are at their levy lid currently, the number of additional district "winners" from the levy lid lift would be marginal.

In short, ESHB 1776 would reduce the state's commitment to the poorest school districts, increase inequity between school districts, and authorize property tax hikes above what was allowed at the time voters voted on the proposition.

If the Legislature wishes to consider other cost-saving actions, there are plenty of other ideas (click [here](#) and [here](#) for examples proposed during the regular session). But playing Robin Hood in reverse is bad public policy.

Bottom Line

Should the Legislature be called into special session to pass ESHB 1776?

1. Currently, 205 of the state's 295 school districts have a levy lid of 24 percent. The other 90 districts have a levy lid ranging from 24.01 percent to 33.90 percent.
2. ESHB 1776 does put a cap of 35% on local levy lid authority, meaning for those districts with authority above 31% currently they would see less than a 4% increase.
3. Senate Ways & Means, 4/24/09 excel spreadsheet. Note: The spreadsheet shows an impact of \$78 million in levy equalization reduction, not \$60 million. This is the impact to districts on a calendar year basis, rather than a fiscal year basis.
4. Senate Ways & Means [spreadsheet organized in terms of largest winners to biggest losers from ESHB 1776](#)